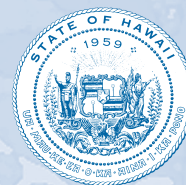


Holomua



Employees' Retirement System
of the State of Hawaii
Working to fulfill your retirement dreams...



Your 2013 ERS tax information update

If you received benefits from the ERS during 2013, your 2013 Internal Revenue Service (IRS) Form 1099-R will be mailed to your home address by January 31, 2014. Reprint/duplicate Form 1099-R requests will be mailed from February 10, 2014 to allow time for mail delivery. If you have a professional tax advisor, accountant, and/or tax preparer, we suggest that you make this information available for their review.

Your 2013 IRS Form 1099-R will include the following information:

Box 1 - Gross distribution: Total benefit payment(s) ERS paid to you in calendar year 2013 per IRS Distribution Code (in Box 7)

Box 2a - Taxable amount: The taxable portion of your benefit payment(s) on this 1099-R.

Box 4 - Federal income tax withheld: The amount of federal income tax ERS withheld from your benefit payment(s), if any, during calendar year 2013.

Box 5 - Employee contributions /Designated Roth contributions or insurance premiums: The portion of your gross benefit payment(s) not subject to taxes and the difference between Box 1 and Box 2a. This is the amount of after-tax contributions that the IRS allows you to recover tax free for the year.

Form 1099-R		CORRECTED (if checked)		OMB No. 1545-0118		2013	
1 Gross Distribution 74073.24		2a Taxable Amount 72469.56		Distributions From Pensions, Annuities, Retirement or Profit-sharing Plans, IRAs, Insurance Contracts, etc.			
2b Taxable Amount not determined		Total distribution					
PAYER'S name, street address, city, state and ZIP code EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII 201 MERCHANT ST SUITE 1400 HONOLULU, HI 96813-2980							
PAYER'S federal identification number 99-6011493				RECIPIENT'S identification number XXX-XX-XXXX			
3 Capital gain (included in box 2a) 0.00		4 Federal income tax withheld 14785.44		5 Employee contributions /Designated Roth contributions or insurance premiums 1603.68			
6 Net unrealized appreciation in employer's securities		7 Distribution code(s) 7		IRA/ SEP/ SIMPLE		8 Other %	
9a Your percentage of total distribution %		9b Total employee contributions					
RECIPIENT'S name, street address (including apt. no.), city, state and ZIP code Retiree Name Retiree Address Account number (see instructions) 2012152532							
10 Amount allocable to IRR within 5 years		11 1st year of desig. Roth contrib.					
12 State tax withheld		13 State/Payer's state no		14 State distribution			
15 Local tax withheld		16 Name of locality		17 Local distribution			
Copy 2 File this copy with your state, city or local income tax return, when required.							
Department of the Treasury Internal Revenue Service							

Account Number: A unique number for each ERS 1099-R Form that helps identify duplicate forms if you request a reprint.

Box 7 - Distribution code(s): Denotes the type of payment you received. IRS uses this code to determine the proper tax treatment of your benefit payments.

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Wes' Corner



The end of 2013 is upon us and so much has happened. Even though the years are going by quickly, it is important to reflect and remember the blessings that occurred during those years. The first quarter of the 2014 fiscal year ended with a positive investment return of 5.3% and \$12.9 billion in investments. Midway through the second quarter, we exceeded \$13 billion and are hoping that the positive returns will continue.

December is our busiest month for retirements with approximately 110 members retiring on December 1st and over 500 retiring on December 31st 2013. For those of you who have not retired, we encourage you to visit the ERS website where the Self Service and the Benefits Calculator are available to calculate your retirement estimates. The on-line service information (under Login to Self Service) was updated through June 30, 2013, or later, with your years of service (all plan members) and account balance (for Hybrid and Contributory Plan members). The ERS website continues to be heavily used, averaging over 35,000 hits per month. The benefits calculator continues to have the greatest number of hits, averaging over 8,000 per month.

The results of our 2013 Actuarial Valuation Report that includes among other things, the ERS's funding status and total pension and unfunded liabilities, will be reported in our next newsletter. The 2012 Actuarial Valuation Report included our assets and investments at \$11.3 billion with a funded ratio of 59.4%.

I hope that you and your family have good health and happiness in 2014.

Aloha,
Wes Machida

New Investment Specialists for the ERS Investment Office

We are happy to announce that Andrew Chen and Ian Wetzel have joined the ERS Investment Office as Investment Specialists effective, October 1, 2013.

Andrew comes to the ERS from the Hong Kong office of Bloomberg LP where, from 2011 to 2013, he was a fixed income trading specialist covering institutional clients in Hong Kong and Taiwan. Prior to that, he worked at Bloomberg's San Francisco office as one of three fixed income trading specialists responsible for institutional client servicing across the West Coast. He also worked as an account manager at CMS BondEdge and at PIMCO in California where he was a compliance analyst. Andrew holds a master's degree in financial analysis from the University of San Francisco and an undergraduate degree in political science from the University of Notre Dame.

Ian joins the ERS from the Bank of Hawaii (BOH), where, as an assistant vice president and portfolio manager, he managed private client and institutional portfolios and conducted asset allocation and manager due diligence research. He began his investment management career with BOH as a risk analyst, producing investment reviews and risk variance reports for client portfolios. He received a BS in Business Administration from the University of Arizona and an MBA with a concentration on finance from the University of Hawaii at Manoa. Ian is a CFA charter holder and a member of the CFA Institute and CFA Society Hawaii.

"We are very excited to have such high caliber staff join the ERS Investment Office," noted Chief Investment Officer, Vijoy Paul Chattergy, "their work is expected to cover all investment products, and they will make important contributions to the management of the pension assets in the coming years."

The 1099-R is a four-part form with instructions on the back of the form. Copy B is to be used in preparing your federal return. Retain Copy C for your records and keep it in a safe place for future financial purposes. You may disregard Copy 2, since all benefits received from the ERS are exempt from State of Hawaii income tax. If you are living out-of-state, you should consult a qualified tax preparer regarding the tax laws in your area.

Because the ERS is a “government defined benefit pension plan,” all benefits paid by ERS and reported to you on Form 1099-R are classified as “pension” benefits. For terminated members, this includes refund of contributions and for retirees, this includes option refund payments and disability benefits.

In most cases, you will receive only one Form 1099-R. However, you may receive several different 1099-R forms if you:

- (1) took a refund option with a rollover to another retirement account;***
- (2) turned age 59 1/2 during 2013 or***
- (3) received benefits as a retiree and a beneficiary***

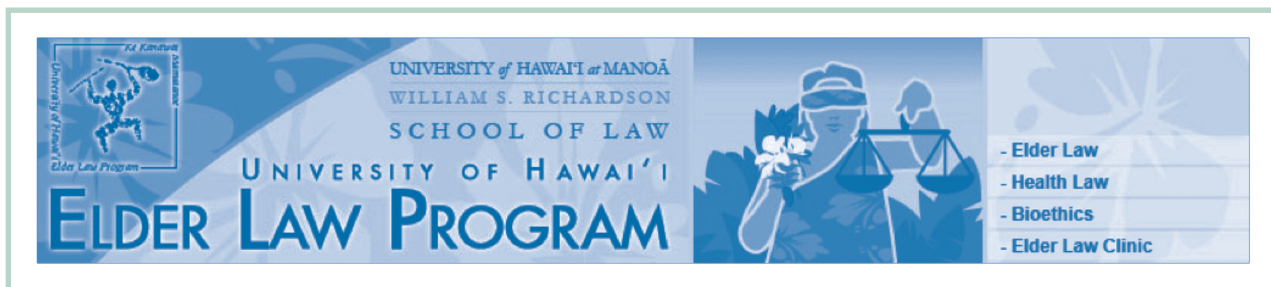
University of Hawaii Elder Law Program Information Available Online

As noted in our previous Holomua, the goal of the University of Hawaii Elder Law Program under the William S. Richardson’s School of Law (UHELP), is to enhance, protect and preserve the autonomy and independence of older persons through education, training and direct legal services.

Information on the program and viewable publications are available on their website at <http://www.hawaii.edu/uhelp>. Refer to the “Publications” tab for their online publications that include the following:

- Deciding What’s Next? 2011 (Read Only access)
- The Elder Law Hawaii Handbook
- Cultural Issues in End-of-Life Decision Making
- The Law of the Splintered Paddle – Kanawai Mamalahoe

We apologize to anyone who may have called or visited the UHELP office for copies of these handbooks – there was some confusion about hardcopy availability. Currently the handbooks are only available online. UHELP is working on an updated version of “Deciding What’s Next?” for fall 2014.



Report from Vijoy Chattergy, Chief Investment Officer

Aloha Kakou.

For the current *Holomua*, we are staying with the risk/return duality concept. Actually, investors think more in terms of a tradeoff. To generate higher returns, one has to accept greater risks. To control risk, one must accept more modest returns. This tradeoff plays out most notably in the allocation decision between holding stocks and bonds. Stocks have higher returns, but are more risky. Bonds are less risky, but have lower returns. An investor decides what percentage of her portfolio to hold in stocks and bonds depending on both her target return and risk tolerance.

Investment returns can be improved through superior access to information and through better interpretation of that information. Investment risks are controlled through discipline, diversification, and time horizon modification. With more information (or less uncertainty), shouldn't we end up with a definitive answer? Anyone who has spent extended time listening to a 24/7 cable news channel understands that more information does not lead to better understanding. More to the point, the gobs of information provided by investment companies demonstrates the real world limitations of the idea that more data plugged into our investment formula leads to the "right solution."

Frustration with information overload causes investors to resort to information-poor approaches to investing. It's appealing to believe that a non-thinking approach can work because it's easy. In fact, such approaches can sometimes outperform more active approaches, but the luck of such strategies is more like a Blanche DuBois investment approach of depending "on the kindness of strangers."

Luck may have a significant role in any single investment result, but dedicated, long-term investments should begin with an assessment of the risk/return tradeoff. To tilt luck in our favor, we need a systematic method to understand what we know and do not know about market risk/return prospects. Along those lines, Donald Rumsfeld, the former Secretary of Defense, famously said, "there are known knowns; these are things we know that we know. There are known unknowns; that is to say, there are things that we now know we don't know. But there are also unknown unknowns – there are things we do not know we don't know."

Applying this insight to investment management, a known known is the market return, also called *Beta*. Almost every investment strategy has *Beta* as a component to its returns. The ERS portfolio also has a significant portion of its returns driven over the long term by market performance. Access to market returns has been simplified by the invention of index funds and ETFs. Therefore, the risk/return tradeoff of gaining market returns should be relatively simple to estimate and be inexpensive.

Another known known is the so-called *Smart Beta* strategies where returns are driven by market imperfections that are identified as separate from the market return. An example of *Smart Beta* is the small stock effect that basically finds that small-cap stocks outperform large-cap stocks over time. The ERS portfolio should have a portion of its returns more explicitly linked to these strategies in the future.

Turning to the known unknowns, investor skill-based returns, also known as Alpha, is an example of something difficult to quantify in the portfolio. We seek out skilled active fund managers who provide returns in excess of an identifiable benchmark index. However, it is very difficult to know if any excess returns are the result of skill, luck, or some still unidentified *Smart Beta* effect. Indeed, efficient market theory stipulates that any excess return is the result of taking additional risks that are not yet known. The ERS portfolio should have skilled active managers who justify their fees above that of an index fund as attributable to their abilities.

Finally, unknown unknowns include the housing bubble, internet bubble, Asian debt crisis, and the rise of mobile computing. These events do not lend themselves to modeling or long-term strategic planning, even if a few soothsayers warn of the approaching event. The ERS portfolio was blindsided by these unknown unknowns in the past. Performance could be improved if the ERS were able to avoid market exposure to assets affected by future crises. However, developing such abilities is not likely for the ERS or any investment manager.

No one can predict or control the unknown unknowns. Instead, the Investment Office can adjust the portfolio's risk/return characteristics by developing long-term asset allocation exposures to strategies (market index, *Smart Beta*, and skill-based returns) while allowing for flexible responses (risk management) to dynamic market conditions within established guidelines. Building a robust and resilient portfolio in the post-financial crisis is a main focus of the Investment Office.

News from the Hawaii Employer-Union Health Benefits Trust Fund (EUTF)

Some important reminders for retirees regarding Medicare Part B:

- If you and/or your dependent are retired and turning 65 years old, or you and/or your dependent are over 65 and are retiring, you **must** enroll in Medicare Part B to be enrolled in the EUTF and HSTA VB retiree medical and/or prescription drug plans.
- Retirees and their dependents, age 65 or older, who reside outside of the U.S., must also enroll in Medicare Part B.
- You are eligible to enroll in Medicare Part B as long as you are a U.S. citizen or a lawfully admitted noncitizen who has lived in the United States for at least five years. You do not have to be eligible for Medicare Part A (free hospital insurance) to purchase Medicare Part B.
- Medicare Part B Open Enrollment will be held January 1 – March 31, 2014, with coverage effective July 1, 2014.
- Once you are enrolled in Medicare Part B you are eligible to be reimbursed for your Medicare Part B premium. You **must** provide EUTF with the following information:
 1. A copy of your Medicare Part B card;
 2. A completed Direct Deposit Authorization Form (found on the EUTF website at www.eutf.hawaii.gov). The reimbursement effective date is the start date of your Part B coverage or the date EUTF receives a copy of your Part B card, **whichever is later**.
 3. A copy of the letter from the Social Security Administration (SSA) indicating the amount of your Part B premium, if you pay a higher than standard income-related Medicare Part B premium.
- If you are receiving a Medicare Part B premium reimbursement that includes an income-related adjustment, EUTF re-sets your Medicare Part B premium to the standard amount every January 1st. Therefore, you must provide EUTF with a copy of the letter from the SSA indicating the amount of the income-related Medicare Part B premium each year.

Failure to provide the EUTF with the above-mentioned documents may result in your medical and/or prescription drug plans being terminated.

- If you are currently receiving Medicare Part B premium reimbursement by check, please contact our Finance Department at 586-7390 or toll-free at 1-800-295-0089, to arrange to have it deposited directly to your bank account just like Social Security.
- You are not required to enroll in Medicare Part B if you are only enrolled in the retiree dental, vision, and/or life insurance plans. However, please keep in mind that Medicare Part B enrollment is required if you wish to enroll in the retiree medical and/or prescription drug coverage at a later date. Delayed enrollment into Medicare Part B may result in penalties imposed by the Social Security Administration (SSA). These penalties are not reimbursable by the EUTF.
- EUTF reimburses you quarterly for the cost of your Medicare Part B premium (not including any penalties imposed by the SSA).
- Every January the Medicare Part B Premium Reimbursement amount resets to the standard amount **which is \$104.90 for 2014**. If you have a higher income-related premium contribution, please submit to the EUTF a copy of your letter from Social Security indicating your 2014 Medicare Part B Premium contribution.
- For more information on Medicare and your enrollment responsibility, please refer to the EUTF Retiree Reference Guide, or contact Social Security toll-free at 1-800-772-1213 or visit their website at www.socialsecurity.gov.
- Please be sure EUTF has your current address and phone number.

Important: The EUTF is a separate organization from the ERS. If you have any questions about information in this article, please **DO NOT** contact ERS. Please contact the EUTF directly at 586-7390 or toll-free at 1-800-295-0089, or email the EUTF at eutf@hawaii.gov. You can also visit our website for more information @ www.eutf.hawaii.gov.



Employees' Retirement System

of the State of Hawaii

Working to fulfill your retirement dreams...

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PERMIT NO. 643



Scan the QR code with your smartphone
to directly access the ERS website.

Holomua

Retirees

October/November/December 2013

Ask ERS

Answers to some frequently asked questions about your Form 1099-R:

Q: When will ERS mail my Form 1099-R for 2013?

A: ERS will mail 1099-Rs by January 31, 2014. Reprints will be mailed from February 10, 2014.

Q: I moved in September 2013 and notified the Post Office. Why does ERS still have my old address?

A: ERS uses current addresses on file for all mail (such as 1099-R, pension statements and newsletters). The Post Office does not automatically notify ERS of your address change. It is very important to notify ERS when you change your mailing address to avoid unnecessary delays and to receive our mail in a timely way.

Q: How do I change my federal income tax withholding?

A: You may change your withholding amount at any time by completing a Form W-4P (Withholding Certificate for Pension or Annuity Payments) and sending it to our office. This form is available on our website (under Retirees>Pension Forms), from the IRS, or by calling any of our offices.

How to Contact Us

Monday-Friday 7:45 a.m. - 4:30 p.m.
(except State holidays)

Oahu Office, Phone: (808) 586-1735

Kauai Office, Phone: (808) 274-3010

Hawaii Office, Phone: (808) 974-4077

Maui Office, Phone: (808) 984-8181

Molokai & Lanai, toll free to Oahu:
1-800-468-4644

Continental U.S. toll free to Oahu:
1-888-659-0708